

**STATE BOARD OF ACCOUNTS  
302 West Washington Street  
Room E418  
INDIANAPOLIS, INDIANA 46204-2769**

EXAMINATION REPORT

OF

VERNON TOWNSHIP

JENNINGS COUNTY, INDIANA

January 1, 2004 to December 31, 2006



**FILED**  
03/09/2007



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## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Patrick Fry Roger W. Taylor	01-01-03 to 12-31-06 01-01-07 to 12-31-10
Chairman of the Township Board	Dale E. Shepherd Paul R. Rockey	01-01-04 to 12-31-04 01-01-05 to 12-31-07



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF VERNON TOWNSHIP, JENNINGS COUNTY, INDIANA

We were engaged to examine the financial schedules of Vernon Township (Township), as of and for the years ended December 31, 2004, 2005 and 2006. These financial schedules are the responsibility of the Township's management.

Financial records for the years ended December 31, 2004, 2005, and 2006, were incomplete and not reflective of the activity of the Township's financial activities. The records did not provide sufficient information to examine or establish receipts, disbursements, ending balances, and the accuracy or correctness of the transactions. Accordingly, no financial schedules are presented for the years ended December 31, 2004 and 2005, and a complete financial schedule for the year ended December 31, 2006, is not presented. Cash and investments presented at December 31, 2006, are based on balances shown on depository statements and not on record balances prepared by management. As a result, the validity and accountability of cash and investments at December 31, 2006, could not be established.

Since officials of Vernon Township did not maintain adequate financial records, as discussed in the preceding paragraph, the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on the financial schedule.

However, we did examine available records to the extent possible for compliance with State statutes and the Accounting and Uniform Compliance Guidelines for Townships published by the State Board of Accounts. The results of this examination are stated in the Examination Results and Comments.

STATE BOARD OF ACCOUNTS

January 23, 2007

VERNON TOWNSHIP, JENNINGS COUNTY  
SCHEDULE OF CASH AND INVESTMENT BALANCES  
December 31, 2006

	Cash and Investments 12-31-06
All Funds	<u>\$ 117,771</u>

The accompanying notes are an integral part of the schedule.

VERNON TOWNSHIP, JENNINGS COUNTY  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Township was established under the laws of the State of Indiana. The Township provides the following services: public safety, health and social services, and general administrative services.

Note 2. Fund Accounting

The Township is required to use funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Information was not available to report financial information by fund.

Note 3. Budgets

The Township did not prepare or obtain an operating budget at the local level. Funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance. However, the Township did not obtain approval from the Indiana Department of Local Government prior to disbursement of tax supported funds.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Township in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Township on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Township to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The following is a summary of the condition of records:

- (1) No financial transactions were entered in the Financial and Appropriation Record (Form 1C) after June 2004.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

- (2) No depository reconciliations were performed.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

A similar comment was made in the prior examination report.

- (3) No annual financial reports for 2004 and 2005 were published or were filed with the State Board of Accounts.

The annual report shall be prepared, verified, and filed with the State Board of Accounts within 30 days after the close of each fiscal year. The report must be published, within four weeks after the third Tuesday after the first Monday in January, one time in accordance with IC 5-3-1. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 2)

- (4) The township has made investments from specific funds, but these have not been properly reported in the financial and appropriation record. Also General Form 350, Register of Investments, has not been used as a record of investments of the township.

When investment is made from a specific fund, a new fund entitled "Investments Fund" should be set up on the records. The net price (purchase price less accrued interest) should be entered as a receipt to this fund. The Investment Register, General Form 350, should be used for keeping a record of all investments purchased by the political subdivision. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 18)

A similar comment was made in the prior examination report.

Due to the above conditions, the Township was unable to present financial statements for us to examine.



VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

DEPOSIT OF PUBLIC FUNDS

The following is description of the Township's deposit activity:

- (1) The Trustee made only one deposit of funds in 2004, no deposits were made in 2005, and only one deposit was made in 2006.
- (2) We conducted a cash count on December 12, 2006. The following is a summary of cash and checks on hand:

<u>Description</u>	<u>Date</u>	<u>Amount</u>
County Adjusted Gross Income Tax	11-03-03	\$ 5,933
County Adjusted Gross Income Tax	11-02-06	5,605
County Vehicle Excise Tax	12-01-06	88
Total		<u>\$ 11,626</u>

The above checks were primarily tax distribution checks received from Jennings County and were dated between April 30, 2004, and May 11, 2006.

At our request, the above amount was deposited on December 20, 2006.

- (3) The following are tax distribution checks that are being held by Jennings County or were receipted back to County funds due to the checks being over two years old:

<u>Description</u>	<u>Date</u>	<u>Amount</u>
County Adjusted Gross Income Tax	11-03-03	\$ 5,933
County Adjusted Gross Income Tax	11-02-06	5,605
County Vehicle Excise Tax	12-01-06	<u>88</u>
Total		<u>\$ 11,626</u>

We requested Mr. Roger Taylor, current Township Trustee, to request Jennings County to release or reissue the above funds to the Township.

Indiana Code 5-13-6-1(c) states in part: "The public funds collected by township trustees shall be deposited in the designated depository on or before the first and fifteenth day of each month."

A similar comment was also made in the prior examination report.

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

NO APPROPRIATIONS OBTAINED

The Township did not obtain approval of the Indiana Department of Local Government Finance for appropriations of any of its funds for the years 2004, 2005, and 2006. Expenditures by fund were not available since the ledger was not posted.

Based on disbursements shown on bank statements, the following is a schedule of total disbursements made without obtaining appropriation.

<u>Year</u>	<u>Disbursed Without Appropriation</u>
2004	\$ 26,593
2005	25,226
2006	22,467

Indiana Code 6-1.1-18-4 states in part: “. . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article.”

NO APPROVAL OF SALARIES

Salaries paid to Township officials and employees were paid without documentation that salaries were approved by the Township Board and were paid without obtaining an appropriation. The following is a schedule of salaries paid:

<u>Position</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
Trustee	\$ 6,000	\$ 6,000	\$ 6,000	\$ 18,000
Clerk	1,260	1,600	-	2,860
All Board Members	<u>1,500</u>	<u>1,000</u>	<u>-</u>	<u>2,500</u>
Totals	<u>\$ 8,760</u>	<u>\$ 8,600</u>	<u>\$ 6,000</u>	<u>\$ 23,360</u>

Indiana Code 36-6-6-10 states: “The township board shall set: (1) Salaries; (2) Wages; (3) Rates of hourly pay; and (4) Remuneration other than statutory allowances; of all officers and employees of the township . . .”

We recommend that the township board set the salaries of township officials and employees, except assessing officials and employees, in conjunction with the preparation and completion of the township budget. The type of format for recording these salaries should be the existing form of Township Form No. 17 (Resolution Recommending Salaries of Township Officers and Employees). The salaries so fixed shall be recorded in the township board minutes. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

A similar comment was also made in the prior examination report.

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

TOWNSHIP CLERK POSITION

We obtained the following information regarding the duties of the Township Clerk:

- (1) The duties of the Township Clerk have historically consisted of posting and balancing the Financial and Appropriation Record (Form 1C). There were no postings to the Financial and Appropriation Record in 2005.
- (2) The Township Clerk was paid \$1,600 in 2005.
- (3) No Employee Service Record (Form 99) was presented for our examination showing what hours or days were worked by the Township Clerk.
- (4) Patrick Fry, former Trustee, and Laurel Fry, former Township Clerk, stated that the Township Clerk performed various duties which could not be noted by written evidence such as driving the Trustee to various places to perform Township Trustee duties and answering the telephone.
- (5) A review of Township expenditures for 2005 did not show the Township Trustee or Township Clerk being reimbursed for travel and did not show any payments for telephone service.

The Employee's Service Record is kept for each employee in order to properly prepare "Payroll Schedule and Voucher, General Form No. 99." It records the hours or days worked, sick leave, vacation and days lost. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

The State Board of Accounts is of the audit position that all townships, as governmental entities, should carefully maintain accurate prescribed or approved employment, service and other records for all persons employed so that documentation is available to substantiate all duties assigned and all amounts paid to each person. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Township Bulletin and Uniform Compliance Guideline, February 2006)

NO CONFLICT OF INTEREST DISCLOSURE

Laurel Fry, Township Clerk, is the spouse of Patrick Fry, Township Trustee. A Uniform Conflict of Interest Disclosure Statement does not appear to have been filed for the years 2004 and 2005. Mrs. Fry was paid \$1,260 in 2004 and \$1,600 in 2005.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

“(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . .”

“(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant . . .”

“(k) As used in this section, ‘dependent’ means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-3-4-1) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (½) of whose support is provided during a year by the public servant.”

A similar comment was made in the prior examination report.

#### ADVANCE PAYMENTS

We found payments made to the Trustee for salary and office rent was paid in advance of services being rendered.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

Indiana Code 5-7-3-1(a) states: “Public officers may not draw or receive their salaries in advance.”

A similar comment was also made in the prior examination report.

#### NO FIRE CONTRACTS

The Township paid the Vernon Township Volunteer Fire Department \$7,500 per year for the years 2004, 2005, and 2006. The contract presented for our examination was for the year 2002. No new or updated contracts were presented for our examination.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

BOARD MINUTES

Minutes of the Township Board were not presented for examination for any meetings held after January 15, 2004. We were unable to determine whether minutes of meetings were not recorded or whether no meetings were held.

Indiana Code 5-14-1.5-4(b) states: "As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7."

A similar comment was made in the prior examination report.

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned an optical image of only the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states, in part: "... 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

Furthermore, Indiana Code 26-2-8-111 states, in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

PAYROLL REPORTING AND REMITTING PROCEDURES

We found the following deficiencies regard the reporting and remitting of payroll taxes:

- (1) Payroll taxes withheld from salaries paid to officials and employees were not properly and timely remitted to the appropriate agencies. We found no evidence that federal tax withholdings for 2005 were remitted to the Internal Revenue Service. Payroll deductions remitted for 2004 did not agree with record amounts withheld.
- (2) W-2's for 2004 were not presented for our examination. We found instances of wages reported on the 2005 W-2's that did not match the amounts actually paid during the year.
- (3) The proper amount of payroll deductions for FICA and Medicare Tax were not withheld from all payments made to officers and employees.
- (4) The Jennings County Auditor paid a claim on behalf of the township to the IRS on January 6, 2006, for \$227.72. This amount includes interest of \$128.71. The County intends to recover the \$227.72 by withholding this amount from future distributions to the Township.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

A similar comment was made in the prior examination report.

NO OFFICIAL BOND RECORDED

No official bond was presented or recorded covering the Trustee for the term beginning January 1, 2003, and ending December 31, 2006.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

Indiana Code 5-4-1-18(a) states in part: "Except as provided in subsection (b), the following . . . township officers and employees shall file an individual surety bond: . . ."

- (4) Township trustees . . ."

A similar comment was made in the prior examination report.

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

PREScribed FORMS NOT IN USE

The following prescribed forms were not in use:

<u>Description</u>	<u>Form No.</u>
Township Trustee's Receipt	16
Employee Earnings Record	99B

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

A similar comment was made in the prior examination report.

TOWNSHIP ASSISTANCE PROCEDURES

Our review of procedures for providing township assistance showed the following:

- (1) No Township assistance standards, adopted by the Township Board, were presented for our examination.

Indiana Code 12-20-5.5 states in part:

“(a) The township trustee shall process all applications for the poor relief according to uniform written standards . . . .”

“(b) The township’s standards for the issuance of township assistance and the processing of applications must be: . . . proposed by the township trustee, adopted by the township board, and filed with the board of county commissioners;

- (2) Investigations were not conducted to determine if applicants qualified to receive township assistance. The Township paid \$1,500 per year in 2004, 2005, and 2006, to the Jennings County Coordinating Council, Inc., (JCCC) to conduct investigations of township assistance applications. According to officials at JCCC, the Township did not submit assistance applications to them so they could conduct investigations.

Indiana Code 12-20-6-9 states in part: “If an application for poor relief is made to the township trustee . . . the township trustee . . . shall carefully investigate the circumstances of the applicant and each member of the applicant’s household . . .”

- (3) No evidence was presented for examination showing there was a published up to date telephone number for Vernon Township.

Indiana Code 12-20-5.5-3(a) states: The township trustee shall ensure adequate access to township assistance services, including a published telephone number in the name of the township.

VERNON TOWNSHIP, JENNINGS COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

GENERAL FORM 100-R NOT FILED

General Form 100-R (Names, Addresses, Duties and Compensation of Employees) was not filed with the State Board of Accounts in 2006.

Indiana Code 5-11-13-1 states in part: "Every . . . township shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts.



VERNON TOWNSHIP, JENNINGS COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on January 23, 2007, with Patrick Fry, former Trustee; Paul R. Rockey, Chairman of the Township Board; and Roger W. Taylor, Trustee.